Wisconsin State Senate
John Lehman
Senator – 21st District

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Testimony of Senator John Lehman
Senate Committee on Health, Human Services, Insurance and Job Creation
January 17, 2008 Public Hearing
Senate Bill 259

Thank you, Senator Erpenbach and members of the committee for the opportunity to provide testimony on behalf of Senate Bill 259. I regret I cannot appear personally but I am currently chairing a meeting of the Education Committee.

Senate Bill 259 would protect Wisconsin consumers by prohibiting the use of credit report information for issuing or setting auto or home insurance premiums.

Why is bill important to the people we represent?

A person's credit report does not indicate safety of a driver or responsibility of a homeowner. The correlation between credit reports and insurance rates touted by the insurance industry are between credit score and the likelihood a person will make an insurance claim. There is not a correlation between credit score and the likelihood you will be involved in an accident.

It is anti-consumer to base rates not on the likelihood you will be involved in an accident but on the likelihood you will use the insurance protection you pay for.

The nature of a credit report, a formula derived snapshot in time, also fails to take into account the totality of a person's financial circumstances.

By sanctioning the use of credit data in insurance rate setting we allow situations - oftentimes beyond a persons control - such as identity theft, national economic trends, struggles in the mortgage market and bankruptcy due to skyrocketing medical costs to penalize victims with increased auto or home insurance rates. Even though they may never have made a claim or been involved in an accident, received a traffic citation or made a claim on their homeowner's policy.

Additional concerns like errors in credit reporting (estimated to occur on as many as 25% of all reports), inconsistency in the methodology used by credit bureaus and their contractors to generate a credit score, the inconsistent manner insurers use the data and a statistically demonstrated disparate impact on lower income and minority consumers raise further red flags.

Across the country many states are taking a hard look at continuing to allow credit report information to be used to set auto and homeowner insurance rates. I hope that, with your support, Wisconsin can remain at the fore of protecting the interests of consumers and enact Senate Bill 259.

Thank you for your time and consideration of this important consumer protection issue.

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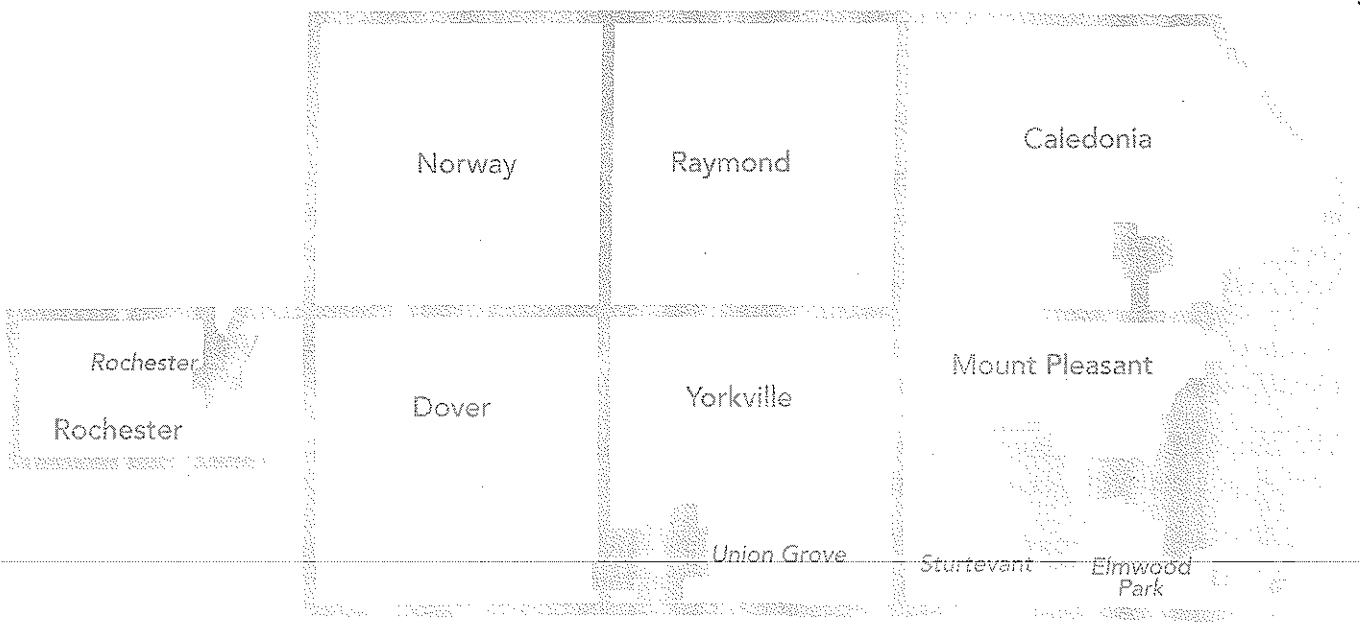
21ST SENATE DISTRICT



CREDIT SCORING - A REGULATED PRACTICE THAT BENEFITS CONSUMERS

January 17, 2008

Madison, Wisconsin

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- The Wisconsin personal lines market, including the regulated use of credit scoring, is, by every general measure, strong and beneficial for consumers.
- Wisconsin ranks 50th in combined average premium, 45th in average insurance expenditure and 50th when premiums are compared to income.
- Wisconsin's residual market for automobile insurance is virtually nonexistent.

- Federal Fair Credit Reporting Act (FCRA) permits insurer use of credit information, subject to other regulatory provisions in the FCRA.
- State insurance rating and anti-discrimination laws apply to insurer use of credit information.

- Insurers have long used, without controversy, financial information including credit standing to assess and price for risk in commercial insurance.
- One government report found that there is a correlation between the financial health of motor carriers and the safety of their over the road operations.

- Starting in the mid 1990's, insurers began using credit information in personal lines of insurance.
- The greater precision in risk assessment as a result of credit scoring has led to more availability of insurance and declining residual market populations.
- The use of credit scoring allows insurers to price more accurately with many more pricing levels, resulting in more individual pricing, and adding increased accuracy to the older risk classifications such as territory.

- The vast majority of states allow credit scoring, with few exceptions.
- When used for rating or underwriting, credit scoring is subject to the same legal standards and review by regulators as any other factor, including the "excessive, inadequate, or unfairly discriminatory" standard in state and federal anti-discrimination laws.
- Some states have provided additional targeted regulation including Wisconsin's Bulletin 6-16-97,referencing Section 628.34 Wis. Stats.

- State studies have all found a strong correlation between credit scores and risk of loss.

- The Federal Trade Commission and the Federal Reserve Board were directed by Congress to study the benefits of credit scoring by lenders and insurers and any effects on demographic groups. Both reports were released earlier this year.
- The Federal Trade Commission found:
  - Strong correlation between risk and credit scores.
  - Market benefits such as more people finding coverage.
  - Without credit scoring, a majority (59%) would see higher rates.
  - Little proxy effects for demographic groups.
- The Federal Reserve Board made similar findings in its report.

CONCLUSION

- Credit scoring has benefited consumers through improved risk measurement and pricing and greater availability of insurance.
- The state already has the necessary regulatory authority to assure the appropriate use of credit scoring.
- The personal lines market in Wisconsin, including regulated credit scoring, compares very favorably with every other state, so no drastic correction is needed or would be beneficial for the public.

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Letter to the Editor: A Rip-Off Via Insurance

By David Eiler

Published by the Ripon Commonwealth Press, January 3rd, 2008

TO THE EDITOR:

Welcome to the newest insurance company rip off tactics.

It seems as though the insurance companies have very powerful lobbyists in Washington and our state capitals that they have convinced our legislators that peoples' credit scores reflect a person's character traits and claim's habits. Therefore, they as the insurance companies are allowed to use a person's credit score to increase your insurance premiums you pay for home, auto, cycle, recreational vehicles and more. This is a windfall for the insurance companies as it brings them in billions of dollars per year more by rating a person according to their financial credit score rating.

If you had a bad score you pay much more then the person with a good score. I had a lady call me three weeks ago and said her insurance rates went up over $100 for her home insurance and she never had a claim and had been with this company for years. When she called them and asked why her rate went up, they said we will check and call you back. The next day, the agent called her back and said her rate went up, because her credit score went down. She asked why? They said because you bought a vehicle so your score went down, therefore your insurance premium went up. Needless to say she did not stay with her company.

This is going to get much more frequent as Congress and our legislators are not doing anything to stop it. With that said, you Joe public, have to call you legislators and Congress people and demand the companies stop using a person's personal financial records against them for buying insurance. If you don't, this is going to get much, much worse down the road as all major carriers are jumping on the band wagon and doing it now, because of the money there is to be made by doing so.

You know, it used to be in America, you could get ahead by borrowing money to buy things or getting a credit card to help you make the squeeze between paychecks. But, you can't do that anymore because it will make your insurance rates go up. Talk about a regressive, non-productive way to see our economy grow. By Congress allowing this type of behavior with the insurance companies and the banks and whoever else wants to jump on the band wagon with this credit score penalty. And, that is what it is: a penalty. This will only further our country into a recession like no other in the history of America.

This nonsense again, working off the backs of hard working Americans, the ones that make our country grow, has to stop and it has to stop now. So please call, make a difference, stand up to corporate America and fight for your right to your financial information being used by them to whack you further into a personal budget crunch that you maybe can't handle. This will deter more people from buying insurance and cause a huge hardship on the ones that do have insurance, because they will have to pay of the ones that can't afford it or don't, because they are fed up with all the bull crap these companies are getting away with. When will it end?

Ask yourself this question. Will they come into your home and rate you according to your housekeeping habits? Whether you did your laundry today, or washed your dishes? Come on America. Wake up and raise a little hell. This in the only way you can get this nonsense stopped. It's just another way for the insurance companies and banks to build more marble castles and pay their corporate CEOs billions more dollars in annual bonuses off the backs of us hard working, taxed to the limit, class Americans, who keep them in business. The ones who make the least, pay the most. We need to make our voices heard get on the phone and call your public officials today and change this behavior.

- David Eiler
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Tuesday, January 15, 2008

Did I write this letter Great American Rip Off?

Yes I did!
Why would I do such a thing?
Because I'm sick and tired of hearing all the people say!

Why is my insurance rate higher then my brother or sister?

Why did my rate go up for buying a car? Don't they want us to buy a car? or have ins.?

Or the 80 year who pays for everything with cash. Why did they charge me more?

Or my wife died of cancer I had no insurance and I had to pay for all her bills and I'm doing that the best I can so why are they charging me more for auto & home because of it. Don't they want me to pay those medical bills?

Or I lost my job and I got behind on my mort. payments for two months so they charge me even more money to pay for my insurance on my car because of it?

Or I got another credit card and they said that gave me a bad credit score so now I have to pay more for insurance because I got another credit card?

This is a regressive penalty for those who are trying their hardest to get buy in life and these days their are allot of people who fall in these categories way to many to count. We are suppose to protect our hard working tax paying public and help them not hurt them even more then they already are. This practice has to stop we can't keep heaping the load on the overloaded we need to cut hard working folk's some slack as they pay to keep Americas lights on and you in a job towing the line. Those are the ones you represent and take an oath to protect and defend so let's do what you are elected to do and protect and defend them by making this practice illegal for them to use.

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"DISPARATE IMPACT" THEORY PROVIDES NO SUPPORT FOR BANNING CREDIT SCORING IN INSURANCE

by

Robert Detlefsen

Lawyers experienced in the practice of employment discrimination law are all too familiar with the "disparate impact" theory of discrimination. Originally conceived by the U.S. Supreme Court in 1971,[1] the theory holds that a standard or practice is presumptively illegal if it has a disproportionate negative impact on members of a group defined by race, ethnicity, or sex—even though the challenged practice makes no reference to these characteristics, and the resulting adverse group impact was not intended by those who designed and implemented the practice. Significantly, however, defendants can rebut the presumption of unlawful discrimination by showing that the challenged practice is required by "business necessity," which will be further discussed in this LEGAL BACKGROUNDER.

Until recently, the use of disparate-impact analysis has largely been confined to the courts, and specifically to cases involving employment discrimination claims brought under Title VII of the Civil Rights Act.[2] Recently, however, the idea of applying disparate-impact analysis to evaluate the fairness of particular business practices has migrated from judicial precincts to state legislatures. The issue driving this transformation of legal doctrine into public policy dogma is, of all things, insurance companies' use of consumer credit information to underwrite and price automobile and homeowners insurance coverage.

How and Why Insurers Use Consumer Credit Information. During the 1990s, a growing number of personal lines insurance companies began using consumer credit information to help them decide whether to issue or renew a policy, and to establish its price. Today most large automobile and homeowners insurers use credit-based "insurance scores" for underwriting and rating purposes. Insurers are interested in credit information for one specific reason: An individual's experience managing credit is an accurate predictor of whether he will file a claim for automobile or homeowners insurance, and the potential size of losses.[3]

It should come as no surprise that once the link between credit history and property insurance claims was established, insurers would regard credit information as a valuable underwriting and rating tool. When an insurer acquires information that allows it to improve the accuracy of its ability to assess risk, it can more

[1]See *Griggs v. Duke Power Co.*, 401 U.S. 424 (1971). Congress codified the use of disparate impact analysis to prove employment discrimination claims in 1991. *See* 42 U.S.C. § 1981a.

[2]42 U.S.C § 2000e *et seq.*

[3]Numerous studies have confirmed the relationship between consumer credit ratings and property insurance losses. *See, e.g.*, Michael J. Miller and Richard A. Smith, *The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity*, EPIC Actuaries, LLC (June 2003).

Robert Detlefsen is Director of Public Policy at the National Association of Mutual Insurance Companies.

closely align the price it charges for coverage with the cost of providing that coverage. Insurers that predict claim costs better than their competitors prosper, while the least prescient end up losing money. This market-driven incentive to accurately assess risk ensures that the price of insurance will be commensurate with the level of risk that a particular policyholder presents.

Nevertheless, risk-assessment techniques that appear to exert an adverse "disparate impact" on particular demographic subgroups have occasionally been the subject of class-action litigation. In the 1990s, a spate of federal lawsuits filed under the Fair Housing Act accused several large homeowners insurers of urban "redlining" based on statistics showing that use of a home's age and market value as underwriting variables disproportionately harmed black homeowners living in inner city communities. (All of the cases were settled out of court.) In contrast to the redlining cases, opponents of credit scoring have lacked credible evidence to support their contention that the practice has a disparate adverse impact on minority populations. That has changed, however, with the release of a new report by the Texas Department of Insurance (TDI).

The Texas Department of Insurance Study. While earlier studies had confirmed the relationship between credit history and insurance risk, the TDI study is arguably the most thorough and authoritative. TDI released the main body of the report in December 2004, and issued a supplemental report in January 2005. The TDI study was based on data obtained from six leading insurers for approximately 2 million policies. Of these, approximately 1.2 million were for personal auto insurance and 800,000 were for homeowners insurance. The personal auto policies covered roughly 2.5 million vehicles.

The TDI study was unusual both because of the size of its database, and because it included individual information on race and ethnicity. That information was missing from other studies because insurers do not collect information concerning the race or ethnicity of their policyholders. The TDI, however, was able to draw on the resources of the Texas Department of Public Safety and the Texas Office of the Secretary of State. Based on data supplied by those agencies, the TDI was able to classify individual policyholders as white, black, Asian, and Hispanic.

The TDI then analyzed "whether the use of credit scoring: (1) impacts certain classes of individuals more than others; and (2) predicts claims experience."[4] The first question was answered unambiguously in the first installment of the report issued in late December 2004: "Whites and Asians, as a group, tend to have better credit scores than Blacks and Hispanics. In general, Blacks have an average credit score that is roughly 10 percent to 35 percent worse than the credit scores for Whites. Hispanics have an average credit score that is roughly 5 percent to 25 percent worse than those for Whites. Asians have average credit scores that are about the same or slightly worse than those for Whites."[5] As the report's executive summary put it, "Blacks and Hispanics tend to be over-represented in the worse credit score categories and under-represented in the better credit score categories."[6]

The December report also concluded that "there appears to be a strong relationship between credit scores and claims experience on an aggregate basis," but cautioned that "credit scores, to some extent, may be reflective of other risk characteristics associated with claims."[7] The report explained that the department would need to perform a multivariate analysis to determine whether credit scoring enables an insurer to predict losses more accurately than it could by relying solely on more traditional underwriting variables. A month later, the department released its supplemental report containing the multivariate analysis. It found that "for both personal auto liability and homeowners, credit score was related to claim experience even after considering other commonly used rating variables. This means that credit score provides insurers with additional predictive information distinct from other rating variables. By using credit score, insurers can better classify and rate risks based on differences in claim experience."[8]

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[4] "Report to the 79th Legislature: Use of Credit Information by Insurers in Texas," Texas Department of Insurance (Dec. 30, 2004), at 3.

[5] *Id.* at 13.

[6] *Id.* at 3.

[7] *Id.*

[8] "Supplemental Report to the 79th Legislature: Use of Credit Information by Insurers in Texas: The Multivariate Analysis," Texas Department of Insurance (Jan. 31, 2005), at 2.

This finding so surprised Texas Insurance Commissioner Jose Montemayor that he felt obliged to acknowledge, in a letter to Governor Rick Perry, that his "initial suspicions were that while there may be a correlation to risk, credit scoring's value in pricing and underwriting risk was superficial, supported by the strength of other risk variables." The study, however, "did not support those initial suspicions." Moreover, credit scoring "is not unfairly discriminatory as defined in current law because credit scoring is not based on race, nor is it a precise indicator of one's race."[9]

Predictably, insurers hailed the supplemental report's confirmation of what they had been saying all along, and were especially heartened by Commissioner Montemayor's public declaration that credit scoring is not unfairly discriminatory. Opponents responded by ignoring Montemayor's letter and dismissing the report's conclusion that credit scoring is a legitimate and valuable underwriting tool. Instead, they focused intently on the report's disparate impact findings. Typical was the reaction of Texas Senator Rodney Ellis (D-Houston), who declared, "It doesn't matter if credit scoring is actuarially justifiable, it is morally unacceptable." Sen. Ellis promptly introduced a bill to ban the practice.[10]

Meanwhile, the Federal Trade Commission is conducting a study analyzing whether the use of credit information affects the affordability and availability of insurance and other financial services products, including the degree to which it may have a disparate impact on various demographic groups. The Fair and Accurate Credit Transactions (FACT) Act requires the FTC to complete its study by the end of 2005, and to include recommendations for legislative or administrative action.

How Should State Policymakers Respond? Assuming that the FTC's disparate-impact analysis of credit scoring replicates the findings of the TDI study, thoughtful policymakers—including those who support the use of disparate impact analysis in Title VII litigation—will be forced to ponder two critical questions: First, is disparate impact analysis an appropriate means of identifying unfair discrimination in insurance underwriting and rating? And if it is, should disparate impact analysis serve as the basis for new legislation to ban credit-based insurance scoring?

A survey of pertinent case law suggests that the answer to both questions is no. In the first place, courts have generally been reluctant to apply disparate-impact analysis to discrimination claims that don't involve employment. Moreover, in non-employment cases where it has been applied, courts have tended to depart from the onerous "compelling business necessity" defense familiar in Title VII cases. That defense requires defendants to show that the purpose behind the challenged practice is "sufficiently compelling to override any racial impact" and that "no acceptable alternative policies or practices [exist] which would better accomplish the business purpose advanced, or accomplish it equally well with a lesser differential racial impact."[11]

In place of the business necessity test, courts have substituted a much looser "legitimate business justification" standard in disparate-impact cases brought under the Fair Housing Act (FHA) and the Equal Credit Opportunity Act (ECOA). For example, in a case that challenged a housing community's numerical occupancy limits on disparate impact grounds, the U.S. Court of Appeals for the Tenth Circuit rejected plaintiff's argument in support of a compelling business necessity standard, declaring that "there is no requirement that the defendant establish a 'compelling need or necessity' for the challenged practice to pass muster since this degree of scrutiny would be almost impossible to satisfy."[12]

Similarly, in a case brought under both the FHA and the ECOA, the U.S. Court of Appeals for the Seventh Circuit affirmed a lower court's dismissal of a discrimination and redlining claim against a lender for denying a mortgage loan application. The disparate impact in that case had resulted from the lender's refusal to grant a $90,000 rehabilitation loan in a neighborhood in which most homes were assessed at a value of $60,000 or less. Applying the legitimate business justification standard, the court explained that

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[9]Letter to Gov. Perry from Commissioner Montemayor, Jan. 31, 2005, at 2.

[10]Daniel Hays, *Texas Legislator Calls Credit Scoring Immoral*, NAT'L UNDERWR., Feb. 2, 2005.

[11]*Robinson v. Lorillard Corp.*, 444 F.2d 791 (4th Cir. 1971).

[12]*Mountain Side Mobile Estates v. HUD*, 56 F.3d 1243, 1254-55 (10th Cir. 1995).

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"the Fair Housing Act's prohibition against denying a loan based upon the location of the dwelling does not require that a lender disregard its legitimate business interests or make an investment that is not economically sound."[13] Several years later, in yet another Seventh Circuit decision rejecting the application of a Title VII-style compelling business necessity standard to a lender, the court pointedly observed that the "wholesale transportation" of discrimination theories and standards of proof from one statutory context to another "display[s] insensitivity to the thinking behind the standard."[14]

These decisions suggest that courts have increasingly come to recognize that serious economic problems would result if the Title VII version of the disparate impact doctrine became the template from which courts, legislatures, and administrative agencies reflexively construct disparate impact standards for other areas of commerce. Applying the disparate impact approach to claims of discrimination in the granting of credit, for example, presents special difficulties because the task of evaluating applications for credit differs significantly from that of selecting job candidates. A prospective employer first decides how many positions must be filled, then chooses among the most qualified applicants to obtain the fixed number necessary to fill those positions. A lender's task, by contrast, is to determine the amount of profit it must derive from each loan, and then extend credit in all cases where it believes that this level of profitability will be achieved. Challenging the lender's creditworthiness criteria on disparate impact grounds—and requiring it to defend those criteria as required by "business necessity"—would essentially place a court in the position of determining the level of profit that is "necessary" to operate a bank.[15]

If lenders and credit card issuers can cite legitimate business justifications for race-neutral evaluation criteria that produce disparate impacts, it seems reasonable to infer that insurers should be allowed to do the same. A test that recognizes insurers' legitimate need to accurately assess risk would presumably uphold any challenged criteria—including credit scores—that served this purpose.

Disparate Impact Analysis is an Inappropriate Basis for Legislative Prohibitions of Credit Scoring in Insurance. Policymakers should be no less cautious than judges in deciding whether the disparate impact doctrine provides a sound basis for insurance regulation. That is especially so when one considers that a law that restricts the use of underwriting criteria on disparate impact grounds differs significantly from a legal doctrine that establishes disparate impact as a formal theory for bringing and defending against lawsuits. A legislative or regulatory ban on credit-based insurance scoring is just that—a ban. Once the law is passed, it is not necessary to show that a particular insurer's use of credit information produces a disparate impact among that insurer's current or prospective policyholders. Nor is there an opportunity for the insurer to defend its use of credit information as a legitimate business practice.

It is quite possible, therefore, to approve of disparate-impact analysis as an employment litigation tool while opposing its use as a rationale for enacting insurance underwriting restrictions. In disparate impact cases brought under the Fair Housing Act or the Equal Credit Opportunity Act, legal scholar and disparate impact proponent Peter Mahoney has argued that plaintiffs should be required to identify an equally effective alternative practice that would have less of a disparate impact than the challenged practice. Courts should then consider "the cost to a defendant of adopting and maintaining such a practice or policy as an alternative to the challenged practice."[16]

In a legislative or regulatory setting, it follows that this burden should rest with the policymaking body. If policymakers believe that an alternative to insurance scoring exists that produces less of a disparate impact, that is no more expensive to use, and that is equally effective in meeting the legitimate business purpose of assessing risk, let them identify it.

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[13] *Cartwright v. American Savings & Loan Ass'n*, 880 F.2d 912, 923 (7th Cir. 1989).

[14] *Latimore v. Citibank Fed. Sav. Bank*, 151 F.3d 712, 712-14 (7th Cir. 1998).

[15] *See* Earl M. Maltz, *The Expansion of the Role of the Effects Test in Antidiscrimination Law: A Critical Analysis*, 59 NEBRASKA L.R. 345, 361 (1980).

[16] Peter E. Mahoney, *The End(s) of Disparate Impact: Doctrinal Reconstruction, Fair Housing and Lending Law, and the Antidiscrimination Principle* 47 EMORY L.J. 409, at 523-525 (1998).

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UNIVERSITY of WISCONSIN LAW SCHOOL

CONSUMER LAW LITIGATION CLINIC

TESTIMONY ON SENATE BILL 259

COMMITTEE ON HEALTH, HUMAN SERVICES, INSURANCE AND JOB CREATION

Stephen Meili
Director, Consumer Law Clinic
University of Wisconsin Law School

January 17, 2008

Members of the Senate Committee on Health, Human Services, Insurance and Job Creation:

Thank you for the opportunity to testify on the issue of using credit report information to determine auto and property insurance premiums, which would be prohibited by SB 259.

I am the Director of the Consumer Law Clinic at the University of Wisconsin Law School. The Consumer Law Clinic (CLC) represents low-income Wisconsin residents in matters related to their legal rights as consumers. Additionally, we provide education and outreach services to consumers about their rights.

The CLC is concerned about the use of credit reports in determining insurance premiums or as part of a ratings plan. We believe this practice harms consumers for several reasons, and therefore support SB 259.

First, credit reports are irrelevant to the determination of risk because no causal relationship has been shown to exist between the two. Credit reports are generated to assist in determining a person's "creditworthiness". They contain information about a person's credit card experiences, bill-paying history, number and types of credit cards, outstanding debt, credit inquiries, and number of accounts, among other things. Credit reports do not consider risk factors related to insurance, such as likelihood of an incident requiring insurance coverage. However, these variables are precisely the factors insurance premiums are meant to reflect. Thus, using a credit report as a basis for determining insurance premiums is analogous to using a golf score to determine a grade point average. It makes no intuitive sense.

This logically flawed practice has a disproportionately negative impact on many Wisconsin consumers, particularly those who are poor and members of minority groups. For example, lower income consumers tend to have lower credit scores and higher rates of claims than wealthier consumers. The wealthier a consumer is, the more able he or she is to absorb a loss instead of filing a claim. And because wealth is correlated with race, using credit reports as a basis for underwriting has a discriminatory effect on lower-income consumers, a disproportionate number of whom are African American or Latino. Permitting a practice with such disparate repercussions on low-income and minority consumers is bad public policy.

Additionally, studies have shown that credit scores, which are considered numerical indicators of the information in credit reports, are heavily influenced by minority group status. Studies from Freddie Mac[1], Fair Isaac[2], University of North Carolina[3], the Federal Reserve Board[4], the Joint Center for Housing Studies at Harvard University[5], and the Brookings Institution[6], among others, all indicate that African Americans and Latinos tend to have low credit scores at a much higher rate than whites. Conversely, white consumers tend to have good credit scores at a much higher rate than African Americans and Latinos. Further, credit scores seem to be "path dependent"; meaning that low scores tend to decline and good scores tend to increase. In other words, it is difficult for a person with an existing low credit score to substantially raise their score. Thus, the disparity in credit scores between white consumers and minority consumers will continue to grow. Linking insurance premiums to credit scores will result in disproportionately higher premiums for African American and Latino consumers.

Finally, the CLC also opposes the practice of using credit reports for insurance purposes because credit reports commonly contain errors. A 2004 report by the U.S. Public Interest Research Group states that 79% of credit reports surveyed contained some kind

[1] Freddie Mac, *Automated Underwriting: Making Mortgage Lending Simpler and Fairer for America's Families*, September 1996, at 27.
[2] Fair, Isaac & Co., *The Effectiveness of Scoring on Low-to-Moderate Income and High-Minority Area Populations*, August 1997.
[3] Roberto G. Quercia, Michael A. Stegman, Walter R. Davis and Eric Stein, *Performance of Community Reinvestment Loans: Implications for Secondary Market Purchases*, in Low Income Homeownership: Examining the Unexamined Goal (Nicolas P. Retsinas and Eric S. Belsky, eds. 2002), at 363: Table 12-7.
[4] Robert B. Avery, Paul S. Calem, and Glenn B. Canner, *Credit Report Accuracy and Access to Credit*, Federal Reserve Bulletin, Summer 2004, at 313 (Table 2).
[5] Raphael W. Bostic, Paul S. Calem, and Susan M. Wachter, *Hitting the Wall: Credit as an Impediment to Homeownership*, Joint Center for Housing Studies of Harvard University, February 2004.
[6] Matt Fellowes, *Credit Scores, Reports, and Getting Ahead in America*, Brookings Institution, May 2006.

of error, with 25% containing errors so serious they could result in a denial of credit.[7] These errors often go unnoticed, and most frequently occur in the credit reports of people with common names (e.g. Jane Smith) or those who have been victims of identity theft. Errors on credit reports can have significant detrimental effects on a consumer's financial affairs. Using an unreliable financial instrument as the basis for determining insurance premiums is unfair – and potentially financially disastrous - to those who are denied an insurance-related benefit because of a credit-related error. The people most negatively impacted by this practice are those consumers who are already "on the edge" financially. It is bad public policy to permit a determination with such potentially disastrous consequences to be based on erroneous information.

Insurance companies justify using credit reports in underwriting by pointing to a correlation between credit scores and loss experience. A 2003 study commissioned by the insurance industry indicated that the number of claims filed and the average dollars of loss per insured increased as a credit-based insurance score decreased.[8] This study was limited to private passenger automobile insurance, and by its own admission does not indicate causation or even explain the correlation between credit scores and insurance claims. However, insurers sometimes posit a "moral person" hypothesis, which suggests that a person who is "reckless" with credit may also be reckless in the rest of their matters. This theory disregards the negative impact on credit scores caused by such "unreckless" factors as youth, renting instead of buying a home, using cash for purchases,

[7] U.S. PIRG, *Mistakes Do Happen: A Look at Errors in Consumer Credit Reports*, June 17, 2004, http://www.uspirg.org/home/reports/report-archives/financial-privacy--security/financial-privacy--security/mistakes-do-happen-a-look-at-errors-in-consumer-credit-reports.
[8] Michael J. Miller and Richard A. Smith, *The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity*, EPIC Actuaries (June 2003).

outside credit checks, illness, job loss, divorce, or other financial crises. It is an overbroad generalization that poor credit is the result of "reckless" management of finances.

Adequate insurance coverage is a safeguard against accident or unexpected incident. Credit reports do not provide information about the likelihood of either of these occurrences. A poor credit score does not make a consumer more likely to have an accident or incident, and it certainly does not cause an accident or incident. Thus, using this information, which may be erroneous, as a basis for determining the affordability of insurance coverage is illogical at best, and racially discriminatory, at worst.

The Consumer Law Clinic opposes any practice that unfairly impacts Wisconsin consumers. Using credit reports as a basis for determining insurance premiums is such a practice. Therefore, the Clinic supports passage of SB 259.

Thank you.

Senate Committee on Health, Human Services, Insurance, and Job Creation

Support for SB 259

January 17, 2008

Dear Committee Members:

We were invited to share testimony in favor of the provision of this bill relating to insurance rates and credit scores.

We have been doing battle with several insurance companies for several years, since we paid off our mortgage. Because we now have little debt, our "credit score" and "insurance score" are lower than when we owed more money. This has resulted in an increase in our property/casualty premiums, about 10-15% more depending on the company. Our net worth is over $ 2 million, income over $ 100,000, we've never paid a bill even one day late, have totally clean driving records and have not filed any insurance claims or had claims made against us. We have a single high limit credit card paid in full each month, and a home equity line of credit. However we are paying more for our property/casualty insurance because we have only "one open credit line" (which is incorrect but not all creditors report to the credit bureaus) and my spouse had "no open credit lines before age 25," more than 20 years ago! Even people who file bankruptcy or are foreclosed aren't punished for 20 years.

The insurance industry (and I was an insurance underwriter for 32 years) claims their insurance score models show "correlation" between such independent and unrelated factors as "one open credit line" and "no open credit line before age 25" with the increased likelihood that a claim will be filed. Unfortunately, they cannot prove the causality of this contention, i.e. that these disparate factors cause increased claims, just a "correlation." My contention is that unless they can prove causality, that correlations can be made between many disparate factors that have no relation to each other. For example, a "correlation" could be made between eating cheese and the Packers winning the Superbowl. But one does not cause the other.

If you "google" causality versus correlation, you will find that the confusion between the two concepts is one of the biggest logical fallacies out there. And from my years as an insurance underwriter, I know that many insurance company practices and rates are set by individuals who are not particularly well equipped to develop rates with validity and intellectual rigor. I have seen rates developed using nothing more than personal prejudices, and anecdotal information. Using credit and insurance scoring is *just an easy "out," a way to set rates without doing the research and claiming rates are set using valid practices. Fair Isaac is making a fortune off insurance companies that pay them for their models, because it's the easy way to do business, not the right way. And if insurance companies continue to favor their traditional practices, their experience will be a self fulfilling prophecy—they will continue to insure the same group of people at the same rates, and continue to have the same claims experience as ever before, thus providing fodder for their claims that there is "correlation." Who knows what their experience would be if they actually looked at individual risks, insuring better quality risks, leaving out the "insurance score?"*

It's about time that Wisconsin residents were not subject to these unsupportable, discriminatory practices, since the practice hurts people at both the low income and high income levels, hurts retirees who have paid off debt, hurts people who limit their open credit lines to avoid the risk of identity theft, hurts people who are conservative and responsible in their spending and credit use, as are many people in Wisconsin. It hurts Democrats, Republicans and independents alike. If you pay your bills on time and refuse to keep open excess credit lines, it will hurt you too.

Please consider this when making your decision about the provision related to credit scoring in SB 259. Thank you.

Barbara and Michael Shore

14860 Woodland Place

Brookfield, WI 53005

(262) 783-7039

Bshore2@wi.rr.com

IMPORTANT NOTICE

Did you know credit history affects insurance premiums?

Like most insurance companies, SAFECO INSURANCE COMPANY OF AMERICA counts credit among the many characteristics it evaluates. Other sample characteristics include your driving record for an auto policy or your claims history for a homeowners policy. Your credit can impact your insurance score, which in turn impacts your premiums.

There are all kinds of factors that affect your credit history and, really, unless your credit is *perfect,* we have to send you this letter. You did not get the *very* best pricing possible due in part to the following credit factor(s):

62
56

(Turn over for an explanation of these factors.)

Even if there are no codes above, you did not receive the very lowest price available due at least in part to information in your credit history.

You can get a free copy of your credit report.

Act within 60 days of receiving this letter for a free copy of your current credit history.

Here are three ways to get your free copy:

- Visit consumerdisclosure.com and follow the online instructions.
- Call 800-456-6004 (the interactive voice response at ChoicePoint, the consumer reporting agency that provided us with your credit information).
- Write ChoicePoint Consumer Service Center, PO Box 105108, Atlanta, GA 30348-5108.

Ask ChoicePoint for corrections if you think your report is incomplete or has an error. ChoicePoint did not decide how to rate your policy or make any decisions about your insurance policy. If a correction is made, they'll notify you in writing of the correction. Then, let us know if you want the correction to be used in our calculations (depending on your state, the change could result in a lower or higher premium).

We'll need it in writing, so send us a written request with your name, policy number, and a copy of the notice of correction to:

Safeco Imaging Center
PO Box 515097
Los Angeles, CA
90051-5097
(or fax us at 877-344-5107).

P.S. You also can learn a lot about insurance scores and how they are calculated. Myfico.com and transunion.com are two of many educational Web sites on the subject.

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PPstockd

Reason Code Definitions

Code	Meaning
91	recent adverse public record
90	recent collection
88	number of adverse public records (judgment, lien, bankruptcy, foreclosure &/or garnishment)
78	number of trade lines
77	relationship of loan balance to loan amount on installment loan accounts
76	number of accounts with recent payment information
74	number of accounts with large high credit amounts
73	length of time since most recent installment loan trade line opening
72	number of installment loan accounts with outstanding balances
71	number of installment loan accounts
70	length of time since most recent trade line opening
69	length of time since most recent inquiry
68	number of bank or national revolving/open accounts with outstanding balances
67	number of collection agency filings
66	account not paid as agreed, public record, or collection agency filing
65	amount past due on accounts
64	length of time since public record or collection agency filing
63	number of accounts currently or in the past not paid as agreed
62	length of time accounts have been established
61	length of time (or unknown time) since account not paid as agreed or trade narrative reported
60	length of time revolving/open accounts have been established
59	outstanding balances on revolving/open accounts
58	relationship of balance to high credit on bank/national accounts or other revolving/open accounts
57	number of accounts opened within the last twelve months
56	number of recent inquiries within the past twelve months
55	number of finance company accounts
54	number of accounts with outstanding balances
53	number of bank or national revolving/open accounts
52	accounts not paid as agreed
51	current outstanding balances on accounts

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From: PATTY STOCKDALE [mailto:ppstockd@wisc.edu] Sent: Wednesday, December 19, 2007 9:34 AMTo: Lasee, Frank; Erpenbach, Jon; Rep.BerceauCc: kingj@fish-ins.com; gaylerose.martinez@ces.uwex.eduSubject: Stop practice of using credit reports to raise insurance rates

Frank.Lasee,Jon.Erpenbach,WI Government

Dear Congressmen,

Please support State Representative Terese Berceau efforts and legislation to stop the insurance industry's ability to tie credit scores to insurance rates. I have fallen victim to higher insurance rates this renewal year when my house insurance increased from $440 to $550 with no additional coverages.

I have excellent credit. However, my auto and house insurance rates increased because of some spurious interpretation by my insurance company (now Acuity, was Safeco) that my credit standing had weaknesses. I do not have frivolous debt (AKA many credit cards). Recently, however, I shopped for financing for my $25,000 new roof and the insurance report said I had too many inquiries to my credit. The insurance report also said that my accounts were not long-term. My newest account started in 2004 while my account with my insurance agent began when I bought my house in 1993. The final punch was that the insurance report said that even if I didn't have these weaknesses that my insurance might be higher anyway. Why is that and how can insurance companies get away with saying that?

If someone cannot afford to live from their wages and must rely on credit card debt to live*, what right do insurance companies have to raise rates based on poor credit. They create a situation where important services become unobtainable due to increasing prices. What does credit rating have to do with driving and homeownership? To answer my own question one connection is that many mortgage holders require owners to escrow for house insurance. When the higher bill is submitted to the insurance company, the bill is automatically paid. This is very crafty of the insurance companies to raise profits.

I have not had any tickets or accidents and no claims. There is no reason for my insurance rates to increase.

Patty Stockdale, 298-0843

* I do not recommend anyone live on credit cards, but they are very assessable for most anyone to "pay" bills.

PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
2600 South River Road, Des Plaines, IL 60018-3286

Statement of Property Casualty Insurers Association of America On Credit-Based Insurance Scoring

January 17, 2008

Chair Erpenbach and Members of the Committee:

Thank you for this opportunity to comment on SB 259, legislation prohibiting the use of information in credit reports for issuing or setting premiums for motor vehicle or property insurance. My name is Alex Hageli and I represent the Property Casualty Insurers Association of America (PCI). PCI is a national property casualty trade association comprised of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members insure 66.9 percent of the personal lines market in Wisconsin and 49 percent nationwide.

While not all insurers choose to use credit information in their underwriting or rating practices, PCI believes that insurers should have the right to do so. Accordingly, PCI strongly opposes passage of SB 259.

The federal Fair Credit Reporting Act first authorized insurers to consider credit information nearly 30 years ago. Within the past several years, however, the use of credit information in insurance has grown considerably as insurers have continued to perfect its use and see first hand just how accurate it is. Insurance scoring (also known as credit-based insurance scoring) is an objective and accurate method for assessing the likelihood of insurance losses. Insurers that consider credit information in their underwriting and pricing decisions do so for only one reason – insurance scoring allows them to rate and price business with a greater degree of accuracy and certainty. Sound underwriting and rating, in turn, allows insurers to write more business - a direct benefit for consumers.

It is important to understand how insurers use credit information and to note that there are significant differences between the credit scores used by lenders and the credit-based insurance scores used by many insurers. Although both are derived from information found on credit reports, the information is measured differently. Insurers use credit information in developing insurance scores to predict the likelihood of future insurance loss. Credit-based insurance scores provide an objective measurement of how one manages the risk of credit. Lending institutions, on the other hand, use credit scores to determine the availability, amount and price of credit products offered to the consumer. Lending institutions use credit to determine the likelihood of repayment. The most significant difference between insurers and lending institutions is that insurers never consider income. Insurers measure "how," not "how much."

In addition to income level, one's address, ethnicity, religion, gender, familial status, nationality, age and marital status are also not considered within a credit score calculation. Further, there is no reliable evidence that points to insurance scoring resulting in higher insurance rates for any specific class of individual. Low credit scores do not correlate to a specific territory or class of individuals. On the contrary, both high and low scores are found across all income levels, and territories.

A 2003 study by EPIC Actuaries (now part of Tillinghast), the largest and most comprehensive study ever undertaken on the connection between credit history and insurance risk, found that a consumer's credit-based insurance score is unquestionably correlated to that consumer's propensity for auto insurance loss. The study was based on a countrywide sample of nearly 2.7 million automobiles. Even more significantly, the study found that insurance scores are consistently among the most important rating variables used by insurers. The EPIC researchers used a multivariate analysis technique to determine indicated risk factors. After fully accounting for all overlap and relationship with other risk factors, such as age/gender, territory, model year, driving record and coverage limit – credit was found to clearly be an independent and significant tool for predicting insurance loss. The propensity for loss was found to decrease as the insurance score increases. For example, after adjusting for other variables, individuals with the lowest insurance scores were found to incur 33 percent higher losses than average, while those with the highest scores incurred 19 percent lower losses than average.

Every serious and reputable actuarial study on the issue has reached the same conclusion: there is a very high correlation between insurance scores and the likelihood of filing insurance claims. Without the ability to consider credit, many insurers would be less aggressive in their marketing, and far more cautious in accepting new business. Thus, consumers would quickly have fewer choices in the marketplace.

Credit-based insurance scores allow insurers to write business that they may not have accepted in the past, and to offer lower rates to many insureds. The majority of consumers have good credit-based insurance scores and benefit accordingly – with rates refined to reduce disproportionate subsidies of higher risk individuals. Our member companies tell us that insurance scoring consistently allows them to provide discounted rates for the majority of their policyholders.

Credit-based insurance scoring is an effective tool for insurers - and a fair one for consumers. To protect competition and consumer choice, it is imperative that insurers be permitted to fully price risks using nondiscriminatory and statistically valid tools available to them.

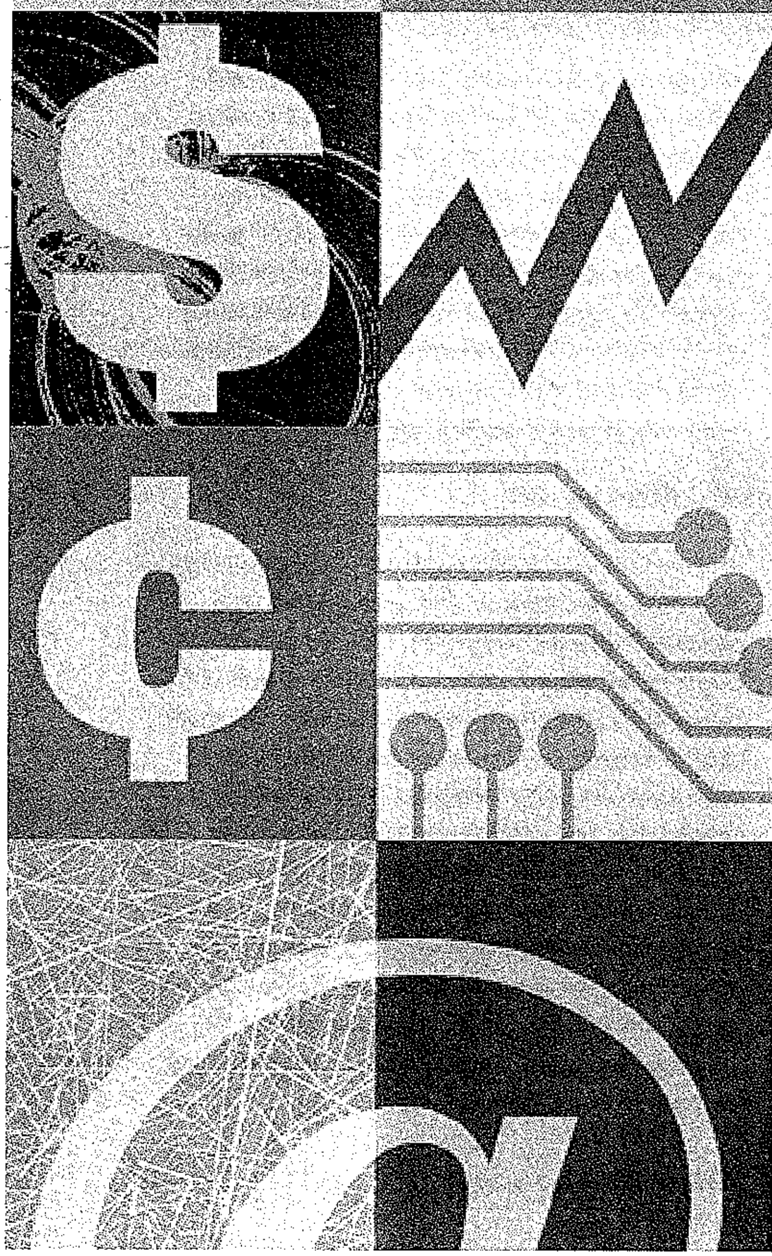
PCI appreciates the opportunity to provide our comments on this bill, and would be happy to address any questions you may have on this subject.

Alex M. Hageli
Manager, Personal Lines

American Insurance Association

CREDIT-BASED INSURANCE SCORES

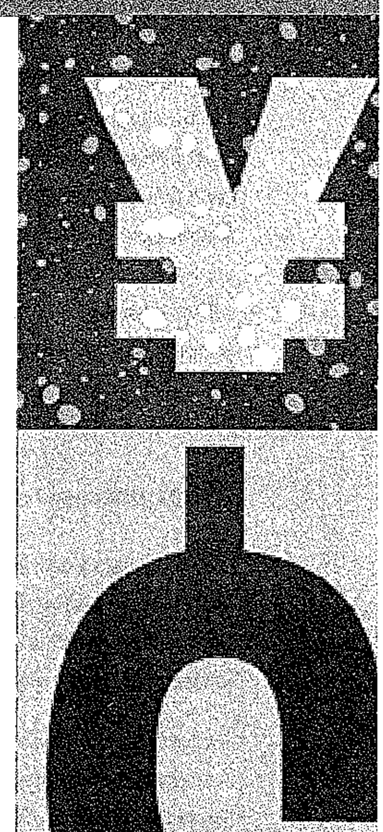
WHAT CONSUMERS NEED TO KNOW

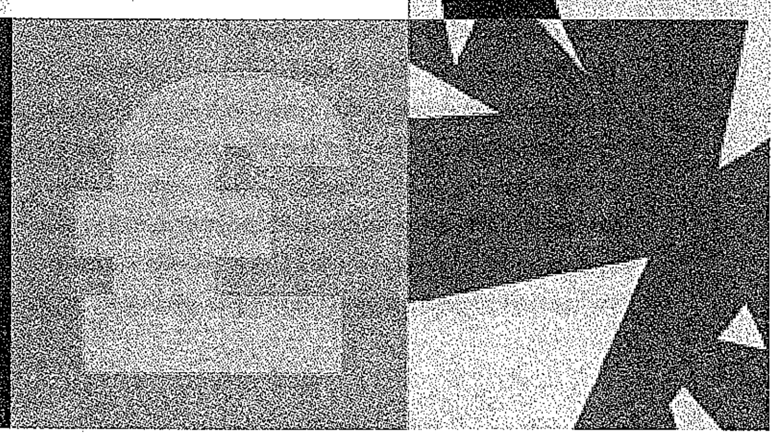


HAVE YOU EVER APPLIED FOR A LOAN OR A CREDIT CARD? RENTED AN APARTMENT OR OBTAINED UTILITY SERVICE?

If so, you know your credit history is very important. The information contained in your credit report can have a major influence over many parts of your life, including your auto and homeowners insurance.

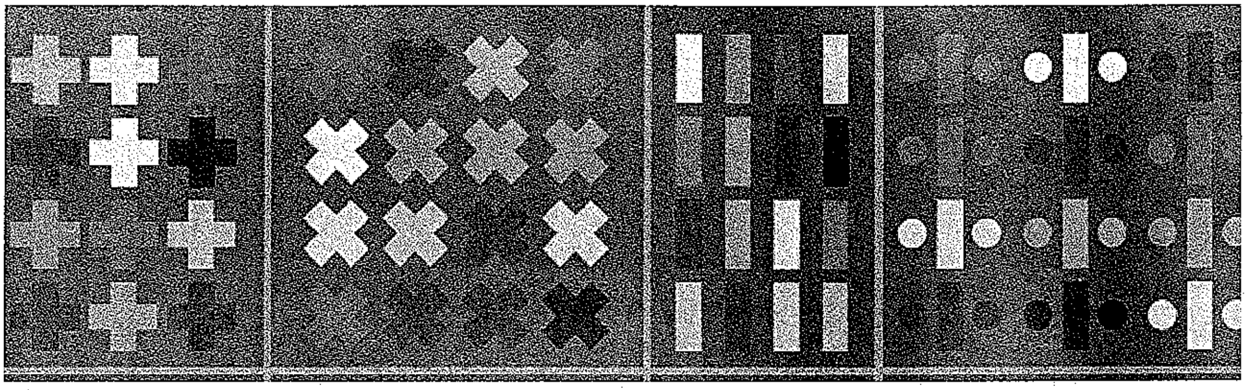
As allowed by law, many insurance companies use a credit-based "insurance score" when evaluating insurance applications or policies. This brochure was designed to give some answers to questions about insurance scoring, including how and why it is used.





What is a credit-based insurance score? Why do insurance companies use them?

An insurance score uses information from your credit report to predict how often you are likely to file claims, and/or how expensive those claims will be. Studies have proven that credit characteristics are predictive of certain outcomes, such as insurance loss. The way you handle your credit says a lot about how responsible you are. Insurance companies want to reward responsible people by offering them better insurance products and by charging them more accurate rates. That's why insurance scores are so useful.



It is important to understand that an insurance score is not the same thing as a credit score. Both are derived from part of the data found in your credit report, but they predict very different things. A credit score predicts how likely you are to repay a loan or other credit obligation. When you are applying for a loan or some other form of credit, the bank will consider your credit history as well as other factors in determining whether you are likely to repay your debt.

When you apply for insurance, the insurance company orders credit information from one or more of the three major U.S. credit bureaus. This information is entered into a computer program that generates an insurance score. Most of these programs, or "models," look at things like payment history, collections, credit utilization and bankruptcies. For example, if you have never been late paying your mortgage, you will probably have a better score than a person who pays late. If you have "maxed out" credit cards, that will negatively affect your score.

What does my credit history have to do with how I drive my car?

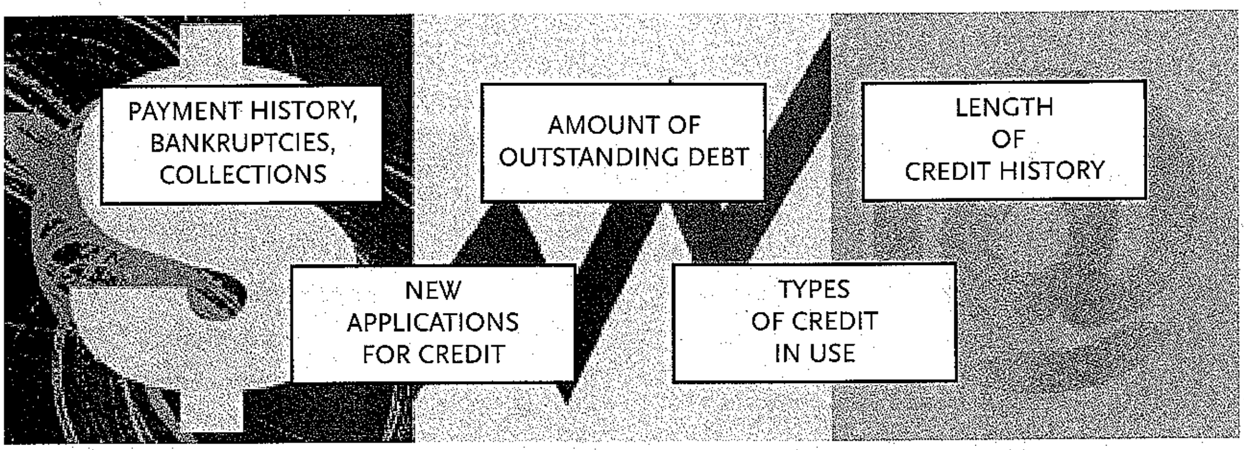
Research has shown that consumers with better insurance scores generally file fewer claims and have lower insurance losses. That is not to say that all people with low insurance scores are higher risks.

For instance, if you add a 16- or 17-year-old driver to your auto insurance policy, your premiums will very likely increase. This is because, as a group, younger drivers have more claims and losses than those with more experience. That does not mean that all 17-year-olds are bad drivers. Research shows, though, that drivers in that age group are more likely to have losses, so they pay more in premiums. It's the same thing with insurance scores– research shows that people with certain patterns of behavior in their credit history are more likely to result in losses for the insurance company. As a result, they may pay higher premiums, or, in extreme cases, they might have trouble getting insurance from some companies. In 2003, a comprehensive, countrywide actuarial analysis of 2.7 million personal auto insurance records was conducted by EPIC Actuaries, LLC. This analysis conclusively demonstrated that credit-based insurance scores are linked to the risk of loss, and that such scores are among the factors most predictive of a future claim. The study also firmly established that insurance scoring is an independent risk factor. In other words, the information insurers obtain from using insurance scores cannot be found by using other traditional, more general rating factors (such as age, vehicle type, driver gender, driving record, or vehicle location). As a result, insurance scores allow insurers to more accurately - and objectively - assess individual risk.

What kinds of things affect my insurance score?

Insurance scores are based on information like payment history, bankruptcies, collections, outstanding debt and length of credit history. For example, regular, on-time credit card and house payments affect a score positively, while late payments affect a score negatively.

SAMPLE TYPES OF CREDIT REPORT INFORMATION USED IN INSURANCE SCORES



Any time someone looks at your credit report, the credit bureaus record this activity – they refer to it as an "inquiry." The number of inquiries on your record can also affect your insurance score. There are several types of inquiries, but under the models used by most insurance companies, the only inquiries that affect your insurance score are those you initiate. Every time you apply for credit, whether a department store charge card, a new car loan, or "easy financing" on new bedroom furniture, an inquiry is noted on your record.

Credit-based insurance scores look at patterns of financial management. Applying for one credit card is unlikely to have much effect on an individual's score. But applying for several lines of credit in a short period probably will have an impact.

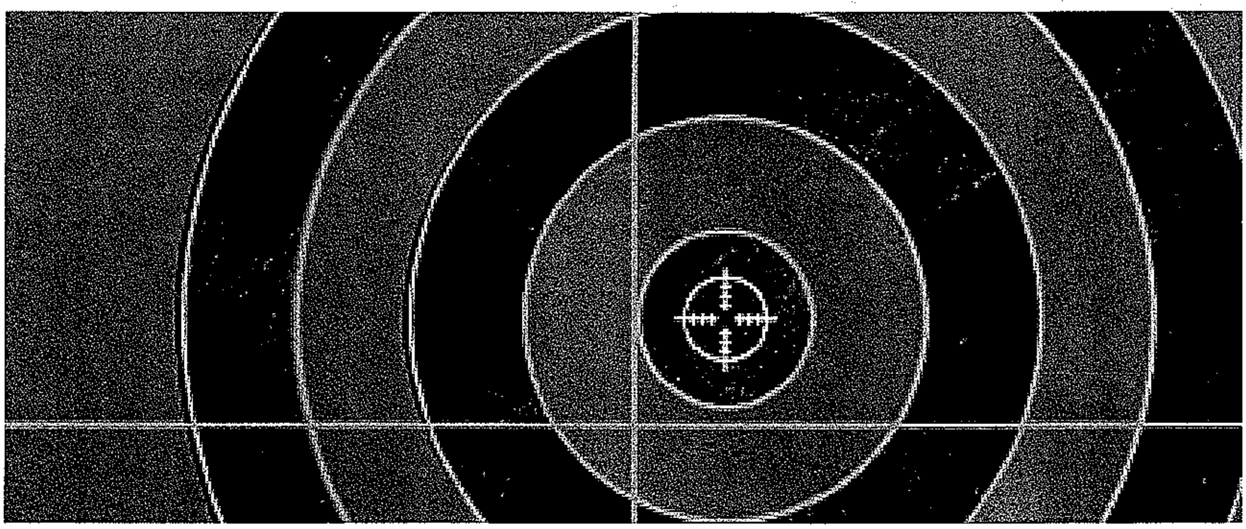
One way to improve your insurance score is to limit the number of self-initiated inquiries in your credit report. This can be done by only applying for credit when you really need it. For example, an unsolicited "pre-approved" credit card notice in the mail would not affect your score, because you did not initiate the offer. If you fill out the form and send it back, though, you are applying for new credit. An inquiry will then be posted in your credit history, which may have an effect on your score. ▼

If you are shopping for a car or a house, you may fill out lots of applications within a short period to find the best deal. This shows that you are a responsible consumer. Under most of the models used by insurance companies, applying for several car or mortgage loans over a certain amount of time will only count as one inquiry. Also, most models do NOT consider inquiries you initiate when you are shopping for insurance.

Do credit-based insurance scores discriminate against certain ethnic or income groups?

No. Insurance companies DO NOT consider the following information in the calculation of your credit-based insurance score:

- Income
- Ethnic group
- Religion
- Gender
- Marital status
- Nationality
- Disability
- Address
- Public assistance sources of income



Can my insurance score help me save money on insurance?

Yes. Credit-based insurance scores allow companies to charge lower premiums to customers who are better risks. For example, people with better insurance scores and a good driving record could qualify for a better auto insurance rate.

In recent years, some states have enacted legislation dealing with insurance scores. This information is available from each state's Insurance Department.

Do I have any rights if I am denied insurance based on my credit history?

Absolutely. If an insurance company takes an "adverse action" against you (such as denying you coverage) as the result of information contained in your credit report, you may obtain a copy of your credit report free of charge from the bureau that provided the information. Again, if you believe there are errors in the report, you should immediately notify the credit bureau – the credit bureau must promptly correct errors.

Can I get a copy of my credit report before I apply for insurance?

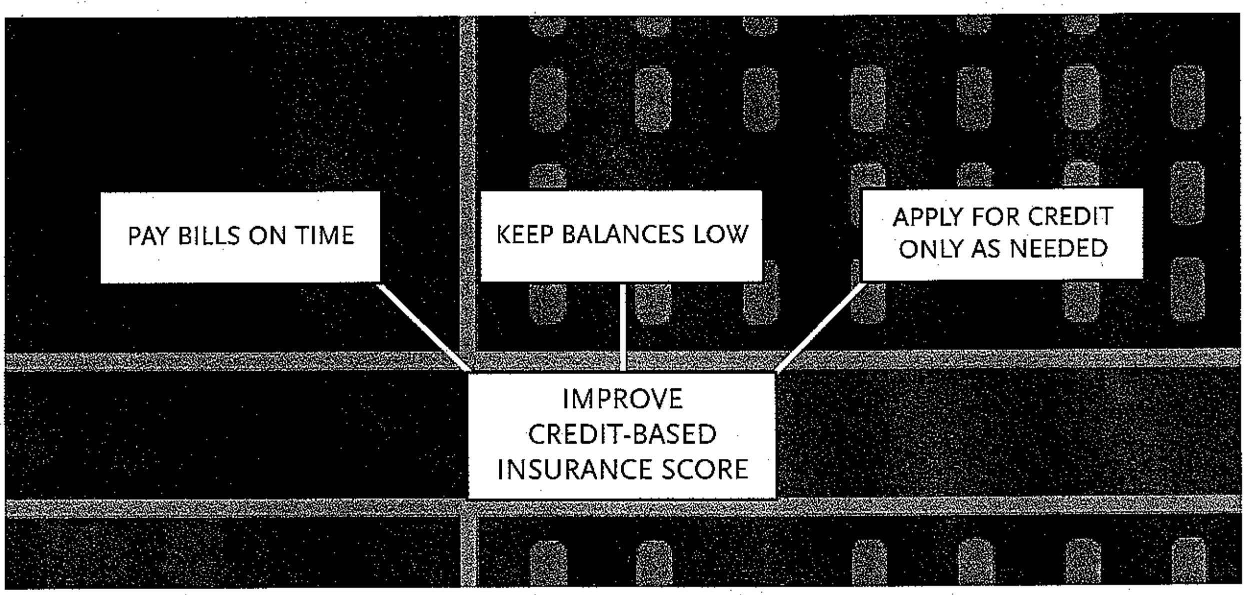
Starting December 1, 2004, in a regionally phased-in system, consumers are entitled to one free credit report a year (visit www.annualcreditreport.com for more information). At other times, for a small fee, each of the three major credit reporting bureaus will send you an updated copy of your credit report. If you believe there are errors in the report, you should immediately notify the credit bureau. If the information is incorrect, the bureau is required by law to promptly correct any errors.

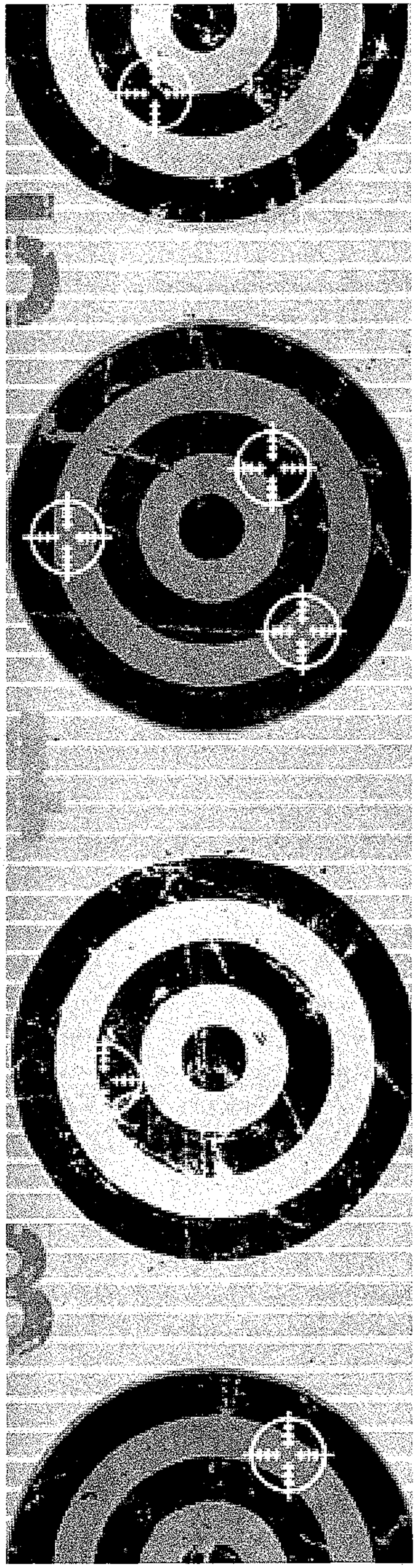
Contact information for the three major credit bureaus is listed at the end of this brochure.

How do credit-based insurance scores benefit consumers?

- Credit-based insurance scores can help you qualify for lower premiums, because insurance companies charge lower premiums to customers who are considered more responsible.
- The use of credit-based insurance scores has allowed more companies to offer more products to more people. Since insurance scores have been used, competition in the auto insurance market has increased significantly - and competition quite often leads to more choices and lower costs.
- The Federal Fair Credit Reporting Act (FCRA), and Fair and Accurate Credit Transaction Act (FACT Act) provide numerous consumer protections. These include:
  - *The right to obtain a free copy of your credit report if you are adversely affected (for example, denied coverage) based on information in your credit report*
  - *The right to contest any inaccuracies in your credit report and have inaccurate information removed*
  - *The right to obtain one free copy of your credit report annually from a credit bureau*
- Insurance scores can be improved. By using credit wisely – paying bills on time and exercising responsibility in other financial activities – you can usually qualify for lower rates.**

***Insurance companies have different policies with regard to how often they will recheck your insurance score. Check with your insurer to find out their policy.*





American Insurance Association

Contacts and other resources:

Federal Trade Commission (FTC)
(www.ftc.gov)

Visit the FTC's website for information on credit and your rights under the Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transaction Act (FACT Act), or call 202-326-2222.

Equifax *(www.equifax.com)*

For a copy of your report, call 1-800-685-1111.

To dispute information in your report, write to:
P.O. Box 740241, Atlanta, GA 30374

Experian *(www.experian.com)*

For a copy of your report, call 1-888-397-3742.

TransUnion *(www.transunion.com)*

For a copy of your report, call 1-800-888-4213.

If you have a copy of your report and wish to discuss it, call 1-800-916-8800.

To dispute information in your report, write to:
P.O. Box 2000, Chester, PA 19022

Consumer Data Industry Association (CDIA)
(www.cdiaonline.org)

Contact the CDIA to learn more about the credit reporting industry.

Fair Isaac Corporation
(www.fairisaac.com)
Contact Fair Isaac to learn more about credit scores.

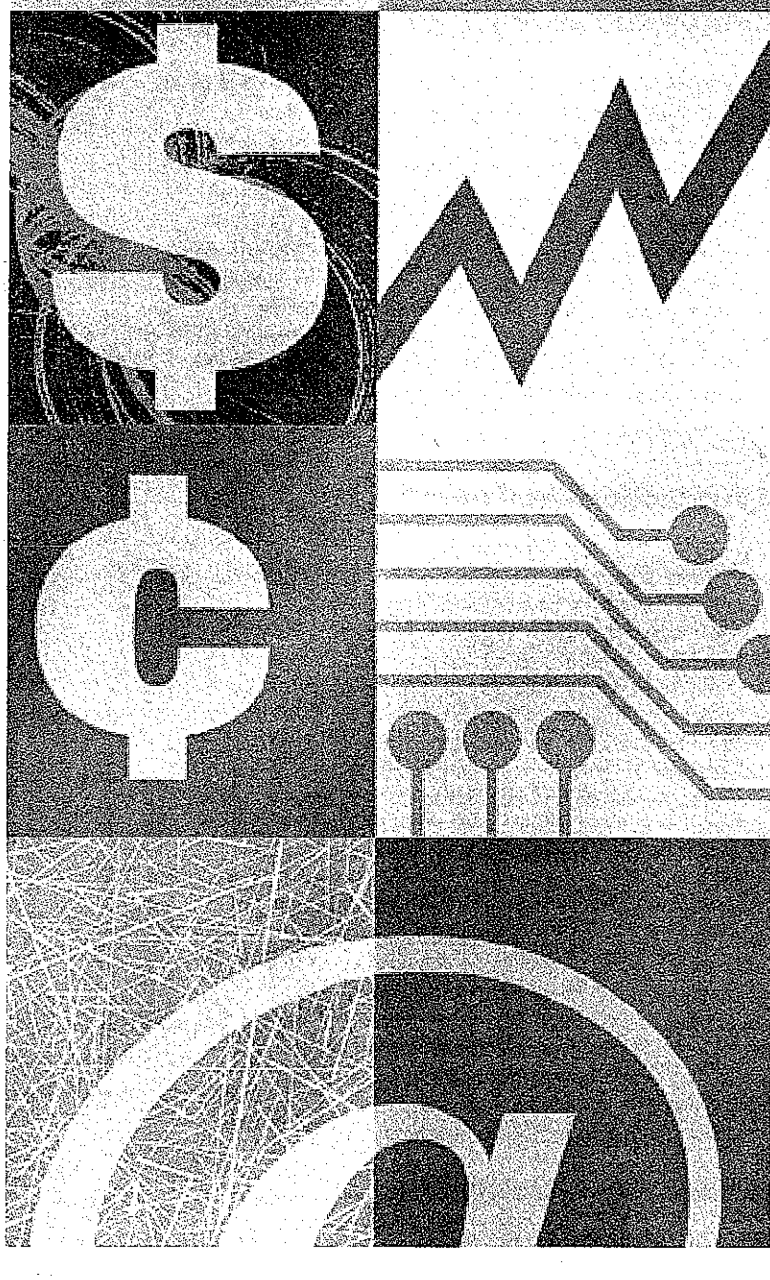
Choicepoint
(www.choicepoint.com)
Contact Choicepoint to learn more about insurance scores.

American Insurance Association
1130 Connecticut Avenue, N.W. Suite 1000
Washington, D.C. 20036
202-828-7100 www.aiadc.org

American Insurance Association

LAS PUNTUACIONES DE SEGURO BASADOS EN EL CRÉDITO

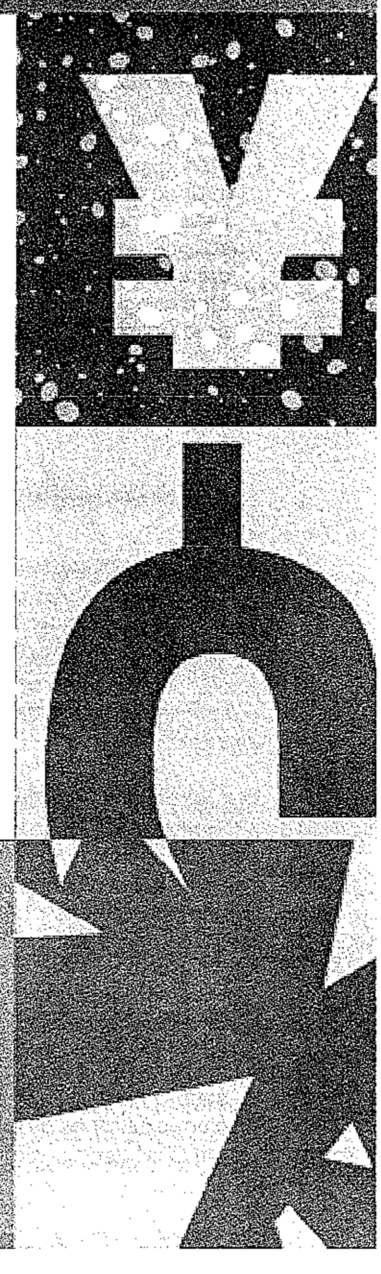
LO QUE LOS CONSUMIDORES DEBEN SABER

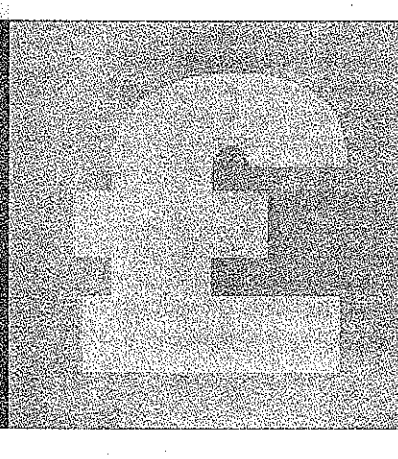


¿ALGUNA VEZ HA SOLICITADO UN PRÉSTAMO O UNA TARJETA DE CRÉDITO? ¿HA ALQUILADO UN APARTAMENTO U OBTENIDO SERVICIOS PÚBLICOS?

Si lo ha hecho, sabe que el historial crediticio es muy importante. La información del informe de crédito ejerce una gran influencia en muchas partes de la vida de uno, incluso el seguro automovilístico y el seguro para propietarios de casas.

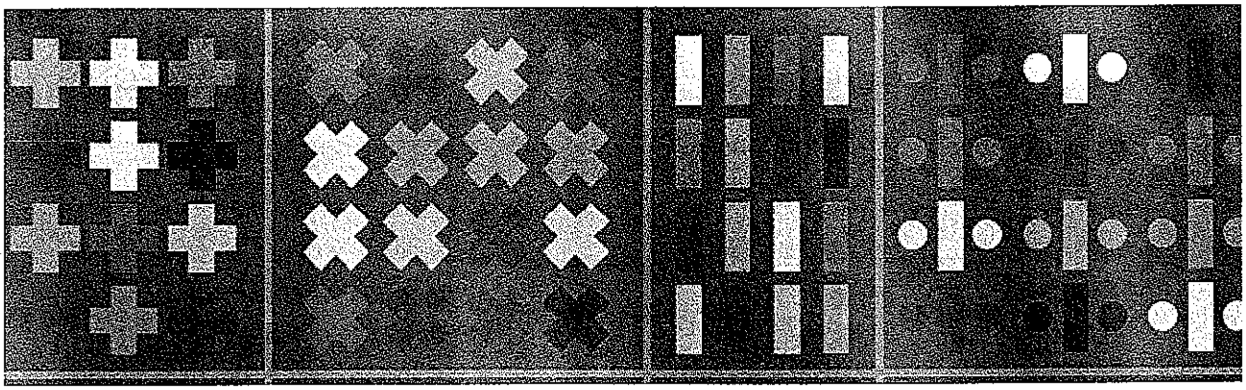
Conforme a lo permitido por las leyes, muchas compañías de seguros emplean la "puntuación de seguro" basado en el crédito para evaluar las solicitudes o las pólizas de seguro. Este folleto fue diseñado para responder algunas de las preguntas sobre la puntuación de seguro, cómo y por qué se usa.





¿Qué es una puntación de seguro basado en el crédito? ¿Por qué los usan las compañías de seguros?

La puntuación de seguro usa la información del informe de crédito para predecir la probabilidad y la frecuencia con la que uno presenta reclamaciones, y/o lo costosas que van a ser. Los estudios han comprobado que las características crediticias de ciertos resultados son predecibles, tal como la siniestralidad. La forma de manejar el crédito evidencia lo responsable que uno es. Las compañías de seguro quieren premiar a las personas responsables al ofrecerles los mejores productos de seguro y cobrarles con mayor precisión. Por eso es que las puntuaciones de seguro son tan útiles.



Es importante entender que la puntuación de seguro no es lo mismo que la puntuación crediticia. Ambos se obtienen de parte de los datos del informe de crédito, pero predicen cosas muy distintas. El informe de crédito predice la probabilidad que uno tiene de pagar un préstamo u otras deudas. Al solicitar un préstamo o cualquier otra forma de crédito, el banco tiene en cuenta el historial crediticio y otros factores para determinar la probabilidad de pago de la deuda.

Al solicitarle cobertura, la compañía de seguros le pide información de crédito a una o a más de las tres agencias estadounidenses de informes crediticios. Dicha información se le suministra a un programa computarizado que genera la puntuación de seguro. La mayoría de esos programas, o "modelos," tienen en cuenta cosas como el historial de pago, cobranzas, uso del crédito y bancarrotas. Por ejemplo, si jamás se ha atrasado con el pago hipotecario, usted tal vez tenga una mejor puntuación que el de la persona que paga tarde. Si ha maximizado las tarjetas de crédito, eso afecta negativamente la puntuación.

¿Qué tiene que ver mi historial crediticio con la conducción de mi carro?

Las investigaciones han demostrado que los consumidores que tienen una mejor puntuación de seguro generalmente presentan menos reclamaciones y tienen menos pérdidas de seguro. Eso no significa que todas las personas con puntuaciones de seguro bajos presentan un mayor riesgo.

Por ejemplo, si le agrega un conductor de 16 o 17 años a la póliza de seguro, las primas probablemente aumentarán. Eso se debe a que, como grupo, los conductores más jóvenes tienen más reclamaciones y pérdidas que las personas de mayor experiencia. Eso no significa que todos los de 17 años sean malos conductores. Sin embargo, las investigaciones demuestran que los conductores de ese grupo de edad tienen mayores probabilidades de pérdidas, así que pagan primas mayores. Lo mismo sucede con la puntuación de seguro – estudios demuestran que la gente con ciertos patronos de comportamiento en su historia crediticia tienden más a ocasionarle pérdidas a la compañía de seguros. A raíz de eso, ellos pagan mayores primas, o, en casos extremos, la consecución de seguro se les complica en ciertas compañías. En 2003, EPIC Actuaries, LLC hizo un análisis actuarial en todo el país de 2.7 millones de registros de seguro automovilístico personal. Dicho análisis concluyó que las puntuaciones de seguro basados en el crédito están vinculados al riesgo de pérdidas, y que dichas puntuaciones están entre los factores más predictivos de una reclamación futura. El estudio también estableció firmemente que la puntuación de seguro es un factor de riesgo independiente. En otras palabras, la información que las aseguradoras obtienen al usar las puntuaciones de seguro no se encuentra al emplear otros factores de clasificación tradicionales y más generales (como la edad, tipo de vehículo, sexo del conductor, historial de tránsito o la localización del vehículo) Como resultado, las puntuaciones de seguro permiten que las aseguradoras evalúen el riesgo individual con mayor precisión y objetividad.

¿Qué clase de cosas afectan mi puntación de seguro?

Las puntuaciones de seguro se basan en información como el historial de pago, bancarrotas, cobros, deuda activa y la antigüedad del historial crediticio. Por ejemplo, los pagos corrientes y puntuales de las tarjetas de crédito e hipotecas afectan la puntuación en forma positiva, mientras que los pagos tardíos lo afectan en forma negativa.

MUESTRAS DEL TIPO DE INFORMACIÓN DE LOS INFORMES DE CRÉDITO
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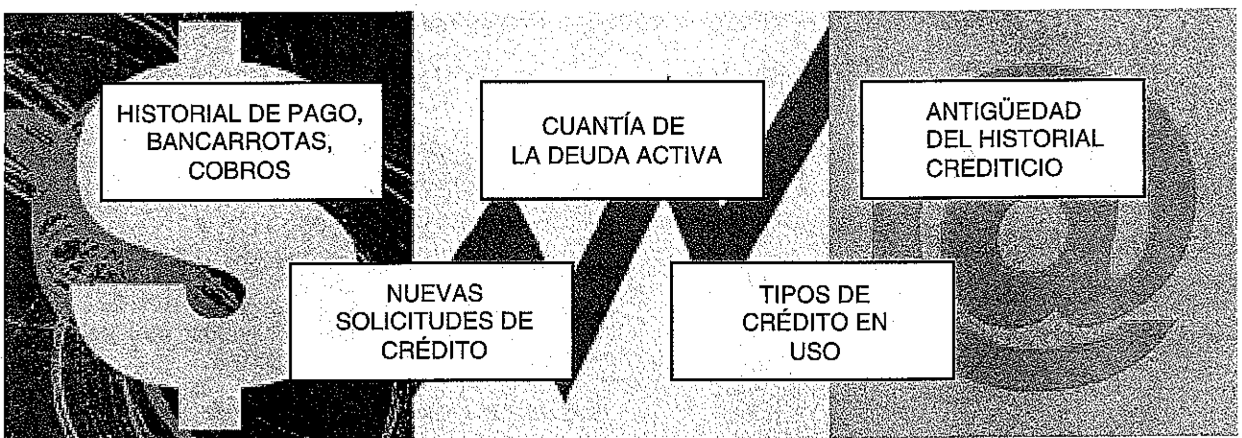


Cada vez que alguien examina el informe crediticio, las agencias de informe crediticio registran esa actividad – ellos la denominan un "pedido de informe." La cantidad de pedidos de informe en el historial también afecta la puntuación de seguro. Hay varias clases de pedidos de informe, pero bajo los modelos usados por la mayoría de compañías de seguro, las únicas que afectan el seguro son las que uno mismo inicia. Cada vez que uno solicita crédito, bien sea una tarjeta de crédito de un almacén, un nuevo préstamo para comprar automóvil, o el "financiamiento fácil" de un juego de dormitorio, el pedido de informe queda asentada en el historial.

Una forma de mejorar la puntuación de seguro es limitar la cantidad de pedidos de informe iniciadas por uno mismo en el informe crediticio. Eso se hace al solicitar crédito solamente cuando uno verdaderamente lo necesita. Por ejemplo, el aviso de una tarjeta de crédito "preaprobada" no solicitada recibido por correo no afecta la puntuación, pues uno no inició la oferta. Sin embargo, si uno llena el formulario y lo envía, es uno quien solicita crédito. El pedido de informe queda registrada en el historial crediticio, lo cual afecta la puntuación.

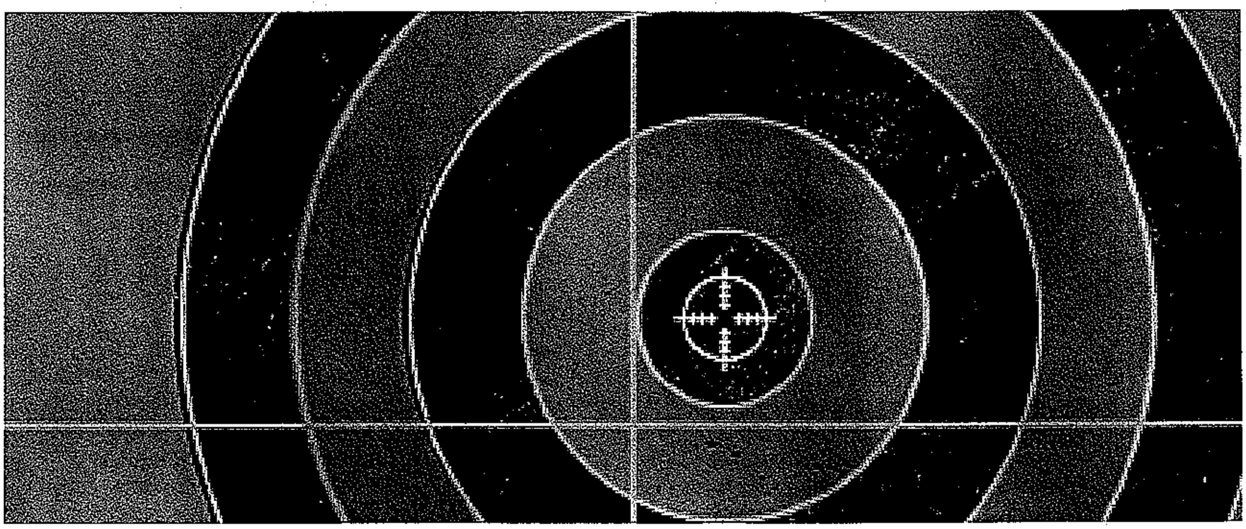
Las puntuaciones de seguro basados en el crédito observan patronos de administración financiera. La solicitud de una tarjeta de crédito no tiene mucho efecto en la puntuación de una persona. Pero la solicitud de varias líneas de crédito en un período corto probablemente tenga un impacto.

*Si uno anda en busca de un automóvil o una casa, llena bastantes solicitudes en un período corto para encontrar la mejor oferta. Eso demuestra que uno es un consumidor responsable. La solicitud de varios préstamos automovilísticos o hipotecarios en cierta cantidad de tiempo solamente cuenta como el pedido de informe, bajo la mayoría de modelos empleados por las compañías de seguros. Además, la mayoría de modelos **NO** considera pedidos de informe que uno inicia al buscar cobertura de seguros.*

¿Discriminan las puntuaciones de seguro basados en el crédito contra ciertos grupos étnicos o salariales?

No. Las compañías de seguro **NO** tienen en cuenta la siguiente información al calcular la puntuación de seguro basado en el crédito:

- INGRESO
- GRUPO ÉTNICO
- RELIGIÓN
- SEXO
- ESTADO CIVIL
- NACIONALIDAD
- INCAPACIDAD
- DIRECCIÓN
- FUENTES DE INGRESO DE AYUDA PÚBLICA



¿Me puede ayudar a ahorrar dinero en el seguro la puntuación de seguro?

Sí. Las puntuaciones de seguro basados en el crédito permiten que las compañías le cobren primas menores a los consumidores cuyo riesgo sea mejor. Por ejemplo, la gente que tenga mejores puntuaciones de seguro y un buen historial de tránsito podría recibir una mejor tarifa de seguro.

Algunos estados han promulgado leyes relacionadas con las puntuaciones de seguro en los últimos años. Dicha información se encuentra en el Departamento de Seguros de cada estado.

¿Tengo derechos si me niegan el seguro con base en la historia crediticia?

Absolutamente. Si la compañía de seguros toma una "decisión adversa" en su contra (tal como negarle la cobertura) a raíz de la información del informe crediticio, usted puede obtener una copia gratis del informe expedido por la agencia de crédito que suministró la información. Una vez más, si cree que el informe contiene errores, debe informarle inmediatamente a la agencia de informes crediticios – la agencia debe corregir los errores con prontitud.

¿Puedo obtener una copia del informe crediticio antes de solicitar el seguro?

A partir del 1 de diciembre de 2004, bajo un sistema progresivo regional, los consumidores tienen derecho a recibir un informe gratis al año. Cada una de las tres agencias de informes crediticios principales le envía una copia actualizada del informe por una suma módica. Si cree que el informe contiene errores, se lo debe comunicar inmediatamente a la agencia. Si la información es incorrecta, la agencia tiene que corregir todo error con prontitud conforme a las leyes.

La información para contactar a las tres agencias de informes crediticios principales aparece al final de este folleto.

¿Cómo benefician a los consumidores las puntuaciones de seguro basados en el crédito?

- Las puntuaciones de seguro basados en el crédito le ayudan a obtener menores primas porque las compañías de seguro le cobran menos a los consumidores más responsables.

- El empleo de puntuaciones de seguro basados en el crédito ha permitido que más compañías le ofrezcan más productos a más personas. La competitividad en el mercado de seguro automovilístico ha aumentado considerablemente desde que se empezaron a usar las puntuaciones de seguro – y la competencia comúnmente resulta en mayores opciones y costos reducidos.

- La Ley Federal para la Información Justa en el Informe de Crédito (FCRA), y la Ley de Transacción Crediticia Justa y Precisa (FACT Act) establecen numerosas protecciones para el consumidor. Estos incluyen:

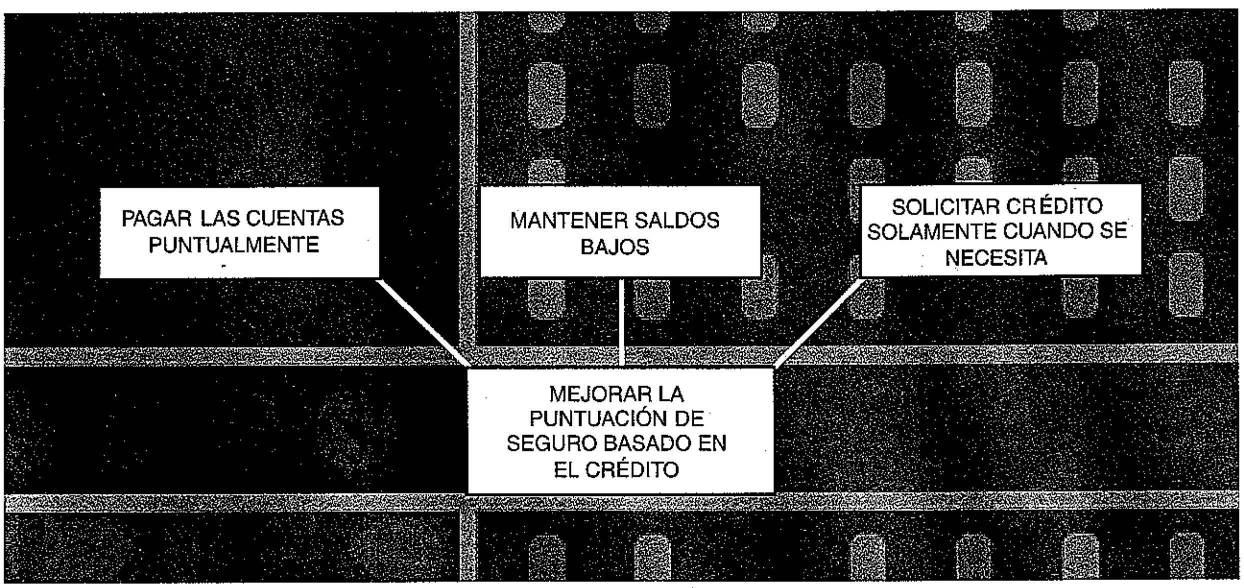
  – El derecho a obtener una copia gratis del informe crediticio si le afecta adversamente (por ejemplo, le niegan la cobertura) con base en la información del mismo

  – El derecho a refutar toda imprecisión en el informe y que le supriman la información inadecuada.

  – El derecho a obtener una copia gratis del informe crediticio anualmente de la agencia.

- Las puntuaciones de seguro se pueden mejorar. Al usar el crédito con prudencia — pagar las cuentas a tiempo y actual responsablemente en otras actividades económicas – uno generalmente paga menos.**

***Las compañías de seguro tienen políticas distintas con respecto a la frecuencia con la que revisan la puntuación de seguro. Consulte con la compañía aseguradora para averiguar cuál es la política de ellos.*



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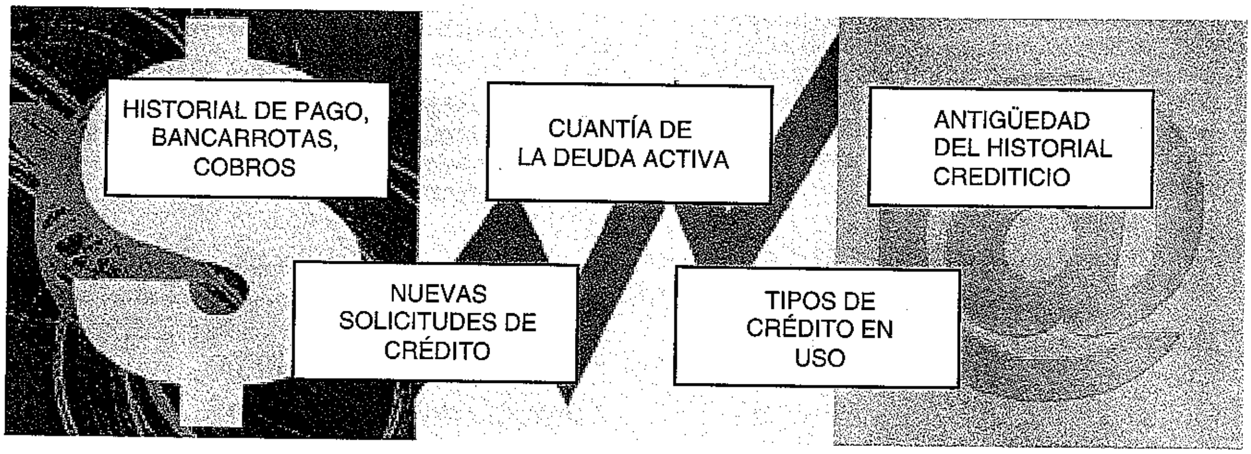

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